

## Message Text

SECRET

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TO USDEL SECRETARY FLASH

S E C R E T STATE 244035 TOSEC 150003

EXDIS DISTRIBUTE AS NODIS

E.O. 11652: GDS

TAGS: ENRG, UR, US, EEWT

SUBJECT: ACTION MEMORANDUM: GRAIN-OIL AGREEMENT

(S/S:7520504)

FOR THE SECRETARY THROUGH SONENFELDT

REF: A)PARIS 26519;B)MOSCOW14596; C) MOSCOW 14584

1. THERE FOLLOWS FOR SECRETARYS REVIEW PROPOSED INSTRUCTIONS  
FOR ROBINSON, MODIFIED FROM PREVIOUSLY APPROVED VERSION,  
TO TAKE INTO ACCOUNT LATEST DEVELOPMENTS.

RECOMMENDATION: THAT YOU APPROVE THE FOLLOWING INSTRUCTIONS  
TO ROBINSON

.... APPROVE ..... DISAPPROVE .....

QUOTE: FOR ROBINSON FROM THE SECRETARY

YOU SHOULD RETURN TO MOSCOW AS SOON AS CONVENIENT TO  
MAKE EFFORT WIND UP THIS PHASE OF GRAIN-OIL NEGOTIATIONS.

YOU ARE AUTHORIZED SIGN GRAIN AGREEMENT AND OIL LETTER OF  
INTENT, DELETING REFERENCE TO "WITHIN THIRTY DAYS," PROVIDED  
YOU OBTAIN SOVIET AGREEMENT TO EXCHANGE SIDE LETTERS

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CLARIFYING PRICE CONCEPT. YOU CAN STATE THAT "MORATORIUM"

WILL BE LIFTED BUT THAT WE WILL EXPECT SOVIETS TO BE SENSITIVE TO PROBLEMS THEY COULD CREATE BY EXCESSIVE PURCHASES NOT CAREFULLY SPACED. (FYI: WE CONTEMPLATE PROVIDING PRIVATELY A TONNAGE FIGURE THAT THEY SHOULD NOT EXCEED WITHOUT CONSULTATION, BUT SEIDMAN HAS NOT YET PUT PROPOSED OPTION PAPER ON THAT NUMBER TO THE PRESIDENT. MOREOVER, THE .VIEW ELSEWHERE IN THE GOVERNMENT IS THAT NUMBER MIGHT BE MADE PUBLIC AT TIME OF ANNOUNCEMENT OF MORATORIUM LIFTING.) END FYI.

2. SECRETARY HAS TALKED TO DOBRYNIN ABOUT SITUATION, IN LIGHT LATEST PRESIDENTIAL DECISIONS, ASSURING HIM YOU WILL BE FLEXIBLE ON TEXT SIDE AGREEMENT AND ASKING FOR SOVIET FLEXIBILITY. DOBRYNIN INDICATED MORE SOVIET FLEXIBILITY NOT TO BE EXPECTED, BUT HE DID NOT TOTALLY EXCLUDE IT. SONNENFELDT FOLLOWED UP REITERATING TO DOBRYNIN NEED FOR SOMETHING BEYOND PRESENT LETTER OF INTENT ON PRICE.

3. IT IS FOR YOU TO DECIDE HOW BEST TO PROCEED, BUT WE SUGGEST YOU MIGHT WISH TABLE DRAFT SIDE LETTER ALONG FOLLOWING LINES:

IN ENTERING INTO THE LETTER OF INTENT TO CONCLUDE AN AGREEMENT FOR THE PURCHASE AND SHIPMENT OF SOVIET OIL, THE UNITED STATES GOVERNMENT IS PROCEEDING ON THE PREMISE THAT THE PRICES TO "BE MUTUALLY AGREED AT A LEVEL WHICH WILL ASSURE THE INTERESTS OF BOTH THE GOVERNMENT OF THE UNITED STATES AND THE GOVERNMENT OF THE UNION OF THE SOVIET SOCIALIST REPUBLICS", TAKING INTO ACCOUNT SUCH FACTORS AS QUALITY AND LOCATION DIFFERENTIALS, PAYMENT TERMS, AND SHIPPING RATES, SHALL ASSURE THAT SOVIET CRUDE OIL AND PETROLEUM PRODUCTS WILL BE AVAILABLE IN THE UNITED STATES AT PRICES WHICH WILL MAKE THEM COMPETITIVE IN THE UNITED STATES MARKET WITH CRUDE OIL AND PETROLEUM PRODUCTS FROM OTHER WORLD SOURCES. I WOULD APPRECIATE, MR. MINISTER, YOUR CONFIRMATION THAT THE SOVIET GOVERNMENT IS PROCEEDING ON THE SAME PREMISE.

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4. IN SHOWING FLEXIBILITY, IF SOVIETS RESIST, THERE ARE TWO LINES OF DEVELOPMENT YOU MAY WISH TO EXPLORE:

A. FIRST, WE COULD ENVISAGE ABOVE LETTER BUT WITH "TAKING INTO ACCOUNT SUCH FACTORS..." DELETED.

B. SECOND, WE COULD ENVISAGE CHANGING THE LANGUAGE TO SPECIFY THAT THE OIL AND PRODUCTS "WILL BE AVAILABLE

TO THE UNITED STATES GOVERNMENT AT PRICES...", PERHAPS  
ADDING ANOTHER PREMISE TO EFFECT THAT "SALES TO PRIVATE  
UNITED STATES FIRMS NOT FOR THE USE OF THE UNITED STATES  
GOVERNMENT SHALL BE MADE AT PRICES AS AGREED UPON BY THE  
GOVERNMENT OF THE U.S.S.R. AND THE PURCHASER, TAKING  
INTO ACCOUNT THE COMMITMENT OF THE GOVERNMENT OF THE  
U.S.S.R. TO OFFER TO SELL TEN MILLION TONS OF CRUDE OIL  
AND PETROLEUM PRODUCTS ANNUALLY."

C. SINCE WE ENVISAGE TRYING FOR FAVORABLE OIL TRANS-  
PORT RATES TO CONTEXT OF MARITIME AGREEMENT, FIRST OF TWO  
LINES OF DEVELOPMENT STRIKES US AS LESS DESIRABLE THAN  
SECOND, BUT WE MENTION IT FOR YOUR CONSIDERATION AND USE  
IF YOU DEEM IT NECESSARY TO ACHIEVE DESIRED END RESULT.

5. YET ANOTHER POSSIBLE AVENUE OF EXPLORATION WHICH  
MIGHT LEAD TO DESIRED UNDERSTANDING ON NEGOTIATING  
PREMISES WOULD BE TO PUSH SOVIETS, AFTER INITIAL DIS-  
CUSSIONS, TO LAY OUT THEIR IDEAS ON PRICES. PATOLICHEV  
SAID PER PARA 5(C) THAT PRESIDENT FORD WAS "QUITE WRONG"  
IN HIS STATED VIEW OF PRICE DETERMINATION FOR SOVIET OIL.  
YOU MIGHT ASK, IF OPEN MARKET EXISTS, WHAT ARE PRICES, ETC.

6. YOU CAN POINT OUT THAT GIVEN INITIAL THOUGHT THAT OIL  
AND GRAIN WOULD BE NEGOTIATED IN PARALLEL IT IS QUITE  
REASONABLE FOR US TO SEEK SOME FURTHER UNDERSTANDING ON  
PRICE BEFORE SIGNING GRAIN AGREEMENT.

7. YOU SHOULD ESTABLISH EITHER IN AMENDED FIRST PARA-  
GRAPH OF LETTER OF INTENT (OR ORALLY IF SOVIETS PREFER)  
THAT NEGOTIATION OF AN OIL AGREEMENT WILL BE RESUMED IN  
WASHINGTON NO LATER THAN OCTOBER 22, 1975. IF SOVIETS  
OBJECT TO WASHINGTON, WE COULD ACCEPT MOSCOW, BUT WOULD  
PREFER NEUTRAL GROUND SUCH AS LONDON. YOU MUST DELETE,  
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AS PATOLICHEV PROPOSED, PHRASE SETTING "WITHIN THIRTY  
DAYS" DEADLINE FOR CONCLUSION OF NEGOTIATIONS.

8. WE SEE NO REPEAT NO MERIT IN PATOLICHEV PROPOSAL  
(PARAGRAPH 7B(A)) OF REFERENCE C TO REFER IN LETTER OF  
INTENT TO FORMAL SOVIET REJECTION OF DISCOUNT IDEA.

9. RE PARIS 26521, JUST RECEIVED, YOU HAVE DISCRETION  
TO PLAY HAND IN ORDER ACHIEVE SATISFACTORY AGREEMENT  
WITHIN TWO OR THREE DAYS, BUT IT IS OUR JUDGMENT THAT  
DETAILED DISCUSSION OF NUMBERS AND MECHANISMS COULD BE  
COUNTERPRODUCTIVE IN PRESENT CLIMATE AND THAT SUCH  
SPECIFICS ARE BETTER LEFT FOR FOLLOW-ON NEGOTIATION  
STAGE. SECRETARY CONSIDERED AND REJECTED DRAFT SIDE  
LETTERS CONTAINING FORMULATIONS SIMILAR TO YOUR IDEAS.

YOU WILL NOTE, HOWEVER, THAT WE TOO HOPE OBTAIN SOVIET  
RECOGNITION OF KEY PRINCIPLE THAT DELIVERED COST OF  
SOVIET OIL MUST BE ATTRACTIVE IN COMPARISON WITH THE COST  
OF SAUDI CRUDE DELIVERED IN THE UNITED STATES. UNQUOTE.  
INGERSOLL

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